

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
(317) 232-9855

**FISCAL IMPACT STATEMENT**

**LS 7354**

**BILL NUMBER:** HB 1445

**DATE PREPARED:** Jan 8, 2001

**BILL AMENDED:**

**SUBJECT:** Income tax relief for tobacco farmers.

**FISCAL ANALYST:** Brian Tabor

**PHONE NUMBER:** 233-9456

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** This bill provides that payments received by tobacco farmers, tobacco quota holders, and tobacco growers under Phase II of the National Tobacco Grower Settlement Trust Agreement are exempt from the state Gross Income and Adjusted Gross Income (AGI) Taxes. The bill also defines "tobacco farmer", "tobacco quota holder", and "tobacco grower".

**Effective Date:** January 1, 2001 (retroactive).

**Explanation of State Expenditures:** The Department of State Revenue (DOR) would incur some administrative expenses related to the revision of tax forms, instructions, and computer programs to incorporate this exemption. These expenses could be absorbed given the DOR's existing budget and resources.

**Explanation of State Revenues:** *The maximum revenue loss associated with this deduction is estimated to be approximately \$158,000 in FY 2002 and \$197,000 in FY 2003. However, based on the assumptions explained below, the actual impact could be less.*

This proposal would exempt payments made under Phase II of the National Tobacco Grower Settlement Trust Agreement. According to the Agreement, Indiana tobacco farmers, tobacco quota holders, and tobacco growers will receive 1.16% of the projected national Phase II pavements annually. The chart below shows that maximum amounts that will be paid to Indiana taxpayers:

<b>Calendar Year</b>	<b>Annual Payment</b>
1999	\$4,408,000
2000	\$3,248,000
2001	\$4,640,000
2002	\$5,800,000
2003	\$5,800,000
2004	\$5,800,000
2005	\$5,800,000
2006	\$5,800,000
2007	\$5,800,000
2008	\$5,800,000
2009	\$3,422,000
2010	\$3,422,000
<b>Total Amount</b>	<b>\$59,740,000</b>

NOTE: Actual distributions in 1999 and 2000 were slightly less than the maximum amount due to administrative expenses and difficulties in identifying some eligible recipients. In 1999, the amount distributed was \$4,075,680 in 1999 and in 2000 the total was \$2,978,885.

This bill exempts these payments from both the Corporate Gross Income Tax and the Individual AGI Tax. It is not known how many recipients are corporations that would pay the Gross Income Tax on Phase II distributions. The impact could vary widely with each firm as the Gross Income Tax is based on a company's gross receipts.

For this estimation, all Phase II payments are assumed to be made to individuals or S-corporations subject to the Individual AGI Tax. Due to the effective date of this bill, up to \$4.64 M could be exempted in the 2001 taxable year (see above chart). The maximum impact in FY 2002 of this reduction in state taxable income would be a revenue loss of approximately \$158,000 (\$4.64 M multiplied by the Individual AGI Tax rate of 3.4%). In FY 2003, the impact would be \$197,000 (\$5.8 M multiplied by 3.4%).

It should be noted that absent the National Tobacco Grower Settlement Trust Agreement, the state would not have received any tax revenue from such payments to tobacco farmers, tobacco quota holders, and tobacco growers. In addition, the actual yearly revenue loss may be less than the maximum amounts given above due to the financial losses incurred by many farmers. Individual AGI Tax is deposited in the General Fund. This bill would impact General Fund and Property Tax Replacement Fund revenue from FY 2002 to FY 2011 when all the Phase II money is expected to be distributed.

#### **Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Counties imposing local option income taxes will experience a minimal

reduction in their revenue from these taxes.

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:** Counties with a local option income tax.

**Information Sources:** Linda Gray, Office of the Commissioner of Agriculture, (317) 232-8770.